
COTTON UPDATE – 10 May 2007

Agriculture Chair's Text Discussed

The DG Lamy Indicates Overall Direction

The WTO's Director General came out in parallel support of the initiative taken by the Agriculture chairman in compiling his 30 April 'Communication from the Chairman' document. Speaking on the same day as the informal session of the special session of the committee on agriculture (7 May 2007), the DG noted that the release of Chair's draft was in line with the resumption of the negotiation process as officially restarted by the WTO General Council on 7 February 2007. In Lamy's view the intervening 3 months have not been 'dead time' as perceived by many. In his view the discussions at a political level, including recent meetings of the G4, G6, the G33, the Cairns Group, Caricom as well as the World Bank and IMF spring meetings in Washington were all necessary precursors to resuming textual work. That being said he notes (correctly) that there is no substitute for 'a genuine multilateral negotiation process here in Geneva'.

Lamy noted that Ambassador Falconer's paper was the first in a series of draft papers that will be issued by Chairpersons in all areas of the negotiations. The aim would be that these revised texts would become the basis for an overall agreement. The agriculture text was seen as aimed at identifying a 'centre of gravity' for the entire negotiations, although the paper only covers the first set of agriculture issues in advance of the fuller second version of the June 2006 draft modalities paper. Lamy warned that agriculture negotiators should not forget that there is more to the trade round than just Agriculture; and that the full Doha mandate, including the July 2004 Decision and the Hong Kong Declaration, would equally need progress and working texts in all of the other topics including NAMA, services, trade facilitation and rules as the most important. In doing this the DG also emphasized that Members need to support the respective Chairs by showing a willingness not just to negotiate, but more importantly to show flexibility in this regard.

In approaching the agriculture and other awaited texts, the DG cautioned that the challenge is 'more political than technical', and hinges on leadership, compromise, and recognition of the common interest, and the collective cost of failure. He none the less then urged Members to engage in the technical process.

The Agriculture Informal Session

This is exactly what transpired later in the afternoon as the agriculture technocrats discussed the Falconer text titled 'Communication from the Chair'. In introducing his paper on 30 April, the Chair indicated that he was issuing the text as a challenge to the negotiators. He thus likely expected that the document was likely to attract stiff criticism, which it did. It is interesting to note that Members found the text to be difficult to unpack within a short period, and extremely rich in complexity. This accounts for the typical tone of reaction in line with the following statement from the G20:

'The paper is very dense and technically complex and in this initial discussion we intend to provide a preliminary reaction to it touching upon some of its central aspects rather than going into the details'.

In light of this complexity, statements like the following from the G-33 were fairly typical: 'The Group would like to examine the paper in detail and give its specific comments after due consultation with the respective Capitals'.

In his press conference after the session Falconer expressed his disappointment that despite Members wide critique, indicating that they had risen to his challenge at least partially, they did not present alternatives to the ranges he had suggested in the text regarding what he saw as the key areas requiring movement.

Essentially all the key Members in agriculture, the EU, the US, Brazil, India, Japan, Australia, Switzerland and Argentina expressed, sometimes vehement, opposition to the Falconer text, based on entrenched positions.

The key focus was directed at overall trade distorting domestic support, product specific capping and the determination of the base period to determine the magnitude of the subsidies. The secondary focus was in critiquing the market access pillar for developed countries as to the different bands and thresholds, and the treatment of developing countries. In particular the Falconer proposals on special products for developing countries were widely lacking of support. Virtually

all interventions could generally be described as seeking an outcome that addresses distortions caused by subsidies, increased market access into developed country markets and developmental flexibilities.

The EU voiced the view that the US needed to fix its amber box at US\$15 billion and that this was to be accompanied by strong limits on the so called new blue box payments. Overall the EU did not see the text as providing a suitable option for a basis for negotiation.

In contrast the US steered away from the subsidies debate and maintained that the negotiations should focus primarily on the market access pillar. The US said the chair should have suggested an average tariff cut of above 54% (54% as previously tabled by the G-20 proposal) as opposed to flirting with a 50% wording. The US also commented that emergency food aid should not be subject to burdensome regulations and called for eliminating the special safeguard mechanism for developed countries.

In response, the Cairns Group pressed the US to produce a revised domestic support offer in line with the Chair's suggestion of the lower teens. The Cairns response also stated that Falconer's suggestion was soft on market access, indicating that the Chair's assessment of a 50% cut as inadequate even as judged against certain defensive stances (recall that the G20 proposed a 75% cut at the top end and the EU a 60% cut). The G-33 added their voice to the market access commentary claiming that the Chair's text shifted the market access burden to developing countries by undermining the special product and special safeguard mechanisms. This was echoed by India who felt that on these items the text 'lacks balance between the sacrifices required from various interests'. India further expressed the view that the US had been given an extremely generous ride on overall domestic support, product specific disciplines and the requisite base period. The G-20 echoed this sentiment that the ranges for trade distorting domestic support cuts were weak disciplines.

As regards the defensive countries of the G-10 (Japan and Switzerland commenting) protested at the stringency of the Chair's view for the cuts in the top band of the tariff formula and sought more favorable (lenient) treatment of the sensitive product selection criteria. The Swiss noted that geographical indications were not addressed and that this was an oversight; but did concede that the paper would serve to revitalize the negotiating process.

Overall the Members comments were flavoured by a pervasive sense of unease all round. This seemed to please the Chair.

Comments Made on Cotton

The C4 experts insisted on the text reflecting the undertakings made in the July package and the Hong Kong declaration. They reaffirmed the validity of their June 2006 submission as the best available proposal so far to effectively address the cotton issue. Some members (EU, China, Nigeria, Japan) gave their support to the C4. They asked for special treatment for cotton in line with the Hong Kong declaration, and for a solution to the cotton export revenue losses.

The Next Steps

The Chair indicated that it was his intention to issue his next paper as early as 14 May 2007, or earlier if that proved feasible. He would then reconvene the negotiators in the ensuing week, 21 May, in order to substantively discuss both texts in order to seek overall engagement.

The Chair indicated that the second draft modalities text would be much clearer than the first version (June 2006) being far less complex with less bracketed text. He, probably rightly, does not however see that modalities 2 would be 'the final word'. In this regard he hinted that inputs from the G-4, either in advance or subsequent to the draft, would be 'hugely positive'.

The Chair commented that while not widely embraced at the meeting, his proposal regarding the use of the Uruguay Round methodology for developing countries' market access was certainly now within the ambit of the discussions and would be the subject of the further discussion session (21 May 2007)¹.

Closing Observation

It is clear that delegations will be making further and more technical analysis of the Chair's 30 April text. Falconer in the meantime has indicated that his second

¹ Recall that in paragraph 145 of the 30 April text the Chair stated in respect of tariffs that: 'one could cut through all the bands and proportions and just go for a straight overall average cut target for developing countries to meet however they choose, provided they simply make a minimum specified cut (which is of course well below the average target) on each line. It was good enough for developed countries in the Uruguay Round. Wouldn't it be basically good enough for developing in this one?'

contribution will most likely be issued in the week of 14 May 2007, to be followed by constructive engagement based upon that text in the week of 21 May 2007.

As for cotton, the need to have a specific and ambitious result as a condition for Doha has been reaffirmed by all including the US. This said, it will be very difficult to engage the major stakeholders into any substantial discussion until the mail parameters in Agriculture are known. The C4 will continue to request early negotiations on cotton to avoid discussions at the last minute under undue pressure.

There is some optimism present in the responses by the Members to the Chair's text indicating that the negotiating process will now gather momentum. Some have even indicated that the Chair's May 2007 documents will probably lead to the establishment of full modalities before the WTO's summer break. In our view this might be somewhat over optimistic. This being said, the process ahead over the period 14 – 28 May is likely to be determinative in establishing this timeframe.

"Nobody had a good thing to say about the paper – so I think we're in business!"

(Comment by Chairman Falconer: Press Conference 7 May 2007)

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